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*Using a Local  
Cooperative as  
Source Material  
for Teaching*

FCS Educational Circular 14  
Farmer Cooperative Service  
U. S. Department of Agriculture



THE Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with co-operatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of the studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

Joseph G. Knapp, Administrator,  
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This educational circular is one of a series prepared for use of members of farmer cooperatives and for educational work with rural youth.

## Using a Local Cooperative as Source Material for Teaching

**S**INCE one or more farmer cooperative business organizations may be found in almost every rural county, most leaders can make a study of the setup of organizations known to the members of the group. If proper use is made of these organizations, the essential elements of a successful farmer cooperative can be made clear to students.

Well-planned visits to the plants or headquarters of associations can be made an effective method of teaching the basic principles of business cooperation. To get the maximum benefit from this method it is necessary to thoroughly plan and prepare for such visits.

The first responsibility of the leader is selection of the cooperative to be used for special study.

Often the choice will be restricted by the limited number of available organizations. The more successful the operation of the cooperative, the more advantageous the study of it usually will prove. In most cases it is best to study the type of cooperative that is most frequently found in the area.

Organizations with large membership usually offer more angles for interesting study than those serving only a few farmers. Convenience of location will sometimes be the determining factor. A preference for a particular function, either processing, selling, buying, insuring, or financing may be justified in the particular situation. And finally the willingness of the management to cooperate in the study is a vital consideration.

### Arranging To Visit the Farmer Cooperative

**T**HE second step is making arrangements with the manager of the cooperative. The leader should talk over the situation with the manager well in advance of the time for the visit. The more com-

plete the discussion as to just what is to be done at the time of the visit, the more profitable the trip will be.

The leader and the manager each should know just what preparation he is expected to make, and have a general idea of what the other is to present to the group. It will often be advantageous for the leader to talk over with the manager the phases of the business to be discussed and occasionally some of the details of what the latter will be

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NOTE.—James L. Robinson, formerly with the Information Division of Farm Credit Administration, prepared text for the original issue of this circular. Slight revisions for this issue have been made by John H. Heckman, Chief, Membership Relations Branch, Farmer Cooperative Service.

expected to tell the visiting group.

The following outline indicates the material which could be presented by the manager. Portions which do not apply to the organiza-

tion being studied should be eliminated from the outline worked out for the manager's talk. Available time for presentation may call for limitation of topics to be covered.

### **Suggested Outline for Material To Be Presented**

#### **by the Manager of the Cooperative**

- I. Organization of the cooperative
  - A. When organized
  - B. By whom organized
  - C. How financed
    - 1. How much
    - 2. By whom
  - D. Original membership
  - E. Purpose for organization
    - 1. Economic need
    - 2. Functions performed
- II. Physical facilities of the cooperative
  - A. Size and capacity of buildings, machinery, transportation, and office equipment
  - B. Classes of property owned and rented
  - C. Cost, original and annual
  - D. Present value
- III. Cooperative's membership and personnel
  - A. Membership
    - 1. Number of members
    - 2. Nonmembers served
    - 3. Percent of producers served in the area
  - B. Board of directors
    - 1. How elected
    - 2. Names of present directors
    - 3. Activities and responsibilities
  - C. Personnel employed
  - D. Membership relations
    - 1. Annual meeting
    - 2. Membership and educational activities
    - 3. How new members are obtained
- 4. Youth program
- 5. Women's program
- 6. Membership publications such as newsletters
- 7. Other methods of communication
- IV. The business of the cooperative
  - A. Operations the past year
    - 1. Type of service
    - 2. Amount and value of product handled by classes
    - 3. Percent of product handled in the trade territory
    - 4. Total sales
    - 5. Expenses (detailed list)
    - 6. Savings paid to members
      - a. Cash
      - b. Allocations
    - 7. Unallocated reserves
  - B. How operations of the cooperative are financed
    - 1. Number and face value of shares or certificates outstanding
    - 2. Indebtedness
    - 3. Net worth
    - 4. Credit policy
- V. Public relations of the cooperative
  - A. With other cooperatives in same field (independent, federated, or local branch of centralized)
  - B. With general farm organization (Farm Bureau,



- Farmers' Union, Grange, and others)
- C. With competing agencies in the area
- D. With general public and educational agencies
- VI. Accomplishments of the cooperative
  - A. Increased returns to members and other patrons
    - 1. Higher returns for products sold for members
    - 2. Lower marketing costs
    - 3. Wider market for the product
  - B. Increased returns to other

- farmers in this territory
- C. Improved quality and form of product for the consumer
  - 1. Through varieties, breeds, and the farmer's practices
  - 2. Through processing and grading and handling methods of the cooperative
- D. Services rendered that were not obtainable elsewhere
- E. Increased knowledge among farmers of marketing and economic problems

## Preparing the Group for the Visit

**P**RELIMINARY study of a similar cooperative business will prepare the group for the trip. Some previous analysis will help the class understand the significance of both the setup and mode of operation of the local cooperative.

If the type of cooperative business to be studied is specifically treated in the "You and Your Co-op" series, issued by the Farmer Cooperative Service, the leader can use the circular discussing this type as introductory material. The subject matter presented in each of these educational circulars should enable students to make efficient use of the time they spend at the cooperative's headquarters or plant. Some State bulletins are also useful for these or other types of cooperatives.

Other approaches can be made when material dealing with similar cooperatives is not available. One plan is to briefly characterize the other three forms of doing private business—namely individual, partnership, and general corporation—

and show the similar and dissimilar features of cooperative organizations. Unless there is a lack of a suitable introductory discussion, this comparison can be more useful in the study following the trip.

Farm boys and girls are familiar with the individual plan for doing business, since the farm itself is generally such a business. Usually they also know a store near them run by a single individual, and they are very likely acquainted with a contractor, a livestock dealer, or buyer of farm products. Likewise, nearly all farm young people are acquainted with members of a partnership firm, most frequently a store, and possibly a number of other lines of business.

In the marketing center or the county seat there are banks, stores, factories, warehouses, and other local businesses with corporate structures. Several types of cooperative farm organizations are found in most counties, such as creameries, elevators, cotton gins,

exchanges, buying or selling associations, mutual insurance companies, and credit or loan associations.

The essential differences between business organizations set up by individuals, partnerships, general corporations, and cooperatives can be brought out in class through discussion. On some points the leader will probably need to supplement the information supplied by members of the class. The discussion of the "Four Systems of Doing Private Business" included in this circular will help develop an analysis.

The leader should further prepare the group for the visit to the cooperative by calling attention to the most important information to be gained from the visit. Working out a list of questions which students would like to get answered, will guide them in making inquiries

during the visit. These questions should be worded to bring out the more important facts to be covered by the manager in his talk. Such outlining of the desired information prevents too much or too little time being spent on some features of the business.

It will usually be most effective to have as much information concerning the local cooperative as possible presented by the manager at its headquarters or plant. Sometimes, however—especially in the case of a large or complex organization—sufficient time may not be available to consider all phases of the organization. In such cases both the leader and members of the group can pool certain facts before making the trip and thus reduce the number of questions asked during the visit, and the information which the manager may be asked to present.

## **Handling the Visit at the Cooperative**

**T**HE basic purpose of the visit to the cooperative is to clarify in the minds of the students how the organization functions as a business. The physical plant, whether it be the office of a mutual insurance company, or credit association, the store or warehouse of a buying or selling organization, or a finely equipped plant that processes farmers' products or supplies, is only incidental to learning how to conduct a cooperative business.

The efficiency of the plant helps the organization to compete with rivals for business, but this is not the factor that makes it a cooperative. Inspecting the physical features, however, will help the student visualize operations of the organi-

zation and crystalize his conception of a cooperative business.

Some preliminary information given by the manager as the group arrives will usually prove helpful. Then a tour should be taken to see physical facilities and observe operations of the organization. Much of the information concerning facilities and volume of business can be told most effectively while the group is observing that particular feature. Such a plan is practical, however, only with a comparatively small group that will stay close to the guide during the trip.

After the physical operations are understood, the group should assemble at a place where discussion can be handled with the least pos-



sible interruption by the regular transaction of business or by the noise of the machinery, if it is a processing plant. The manager should obtain as much information called for in the suggested outline

as is pertinent to his organization. Some managers will be able to give this in a concise, well-organized talk, while others will do much better in answering specific questions.

## **Analyzing the Information**

**F**OLLOWING the trip there should be a full discussion with the group of all that was observed and learned on the visit. This should include an appraisal of the cooperative visited, from the various points of view covered in the outline suggested for the manager's talk.

To adequately size up the cooperative it will be necessary to make use

of comparisons with similar cooperatives with which the students or leader are familiar. The particular association may also be tested against the standards set up in the other Farmer Cooperative Service circulars in this educational series. These are listed on the back of this circular. Material from State bulletins and textbooks can be used in the analysis.

## **Expanding the Study**

**T**HE students' conception of cooperatives may be expanded by making studies of cooperatives handling other commodities and those performing other functions. As far as possible, this should be localized, and sometimes similar visits made to other organizations within the same area.

Some appraisal of the value of cooperative business organizations to farmers should be developed. This should include their limitations as well as economic and social benefits.

Part of, or all, the members of

the class can be organized as a cooperative to carry out a definite project. Such young people's groups are doing effective buying, selling, insuring, and financing, and occasionally cooperative production for sale or providing farm services. Such activities carry to the "doing" level the information gained in the study. When these miniature cooperatives can be modeled after a successful farmers' organization in the community, the value of the activity is increased for both the members of the group and the farmer cooperative.

## **The Four Systems of Doing Private Business**

**S**TUDENTS should also see how cooperatives fit into the general business scene in their community. Therefore, the four different systems of doing business will now be discussed.

Each of these types of business has been developed in response to a

need for their services. Therefore, it is important to understand the methods and organizations of each.

Commercial business in the United States is done through private enterprise; that is, by people using their own efforts and capital to provide for their wants, subject

to regulation and protection of the law. Federal, State, county, and municipal governments provide for certain needs, such as mail delivery, roads, education, regulation of business, and protection of life and property from attack. This is public business. The two are quite different. Nearly all private business is conducted by individuals, partnerships, general corporations, or cooperative associations. Each of these has certain advantages or it would not continue in use.

### **Individual Business Everywhere**

The first and most numerous type of private business is operated by individuals. The operator owns the property, makes all the decisions, takes all the risks, and keeps all the profits if there are any. If not, he also takes all losses. His complete freedom of action enables him to make quick decisions, to carry out any ideas he may have, and to take full advantage of his abilities. An individual's business may be a big enterprise, though this is the exception. The business is temporary, is dependent upon the one owner, and must be reorganized at his death.

### **Partnerships Not So Numerous**

While not so numerous, many businesses are run as partnerships. In partnerships, two or more individuals agree to act together in carrying on a certain business. Naturally, it is often necessary for them to consult with each other before making important decisions, so there is less freedom of action and promptness in decision, but the knowledge and experience of all can be used. Sometimes the partners have made equal contributions of capital and both or all devote full time to operating the business.

Contrarily, the contributions of partners may be of unlike amounts of capital or time, or one may furnish capital and the other take care of the business, depending on the contract they have made with each other.

The use of the several abilities of partners can strengthen a business over that of an individual. The net income is divided among the partners according to the agreement that has been made by them. A partnership is broken up by the death of either of the partners, and a settlement must then be made with the heirs or those having claims against his estate. Partnership businesses, like those of individuals, may be large, but the majority of them are comparatively small.

When the partnership borrows money, generally speaking all the property of all the partners is liable for all its debts (subject to individual exemptions allowed by law for each partner). This is a distinct limitation to a partnership. Also the business is temporary as it must be reorganized when one partner leaves it.

### **Corporation Is "Artificial Person"**

Corporations were the solution to many of the problems of the individual business and the partnership. The Greeks, Phoenicians and Romans recognized these business limitations several hundred years before the time of Christ. So they created an artificial, invisible businessman called the corporation. This idea has spread throughout the civilized world. According to the latest business census, about one in five retail, wholesale, and manufacturing establishments in the country were corporations. These percent-

# COMPARISON OF FOUR METHODS OF DOING BUSINESS UNDER PRIVATE ENTERPRISE

FEATURES COMPARED	TYPES OF BUSINESS			
	INDIVIDUAL	PARTNERSHIP	NON-COOPERATIVE CORPORATION	FARMER COOPERATIVE (USUALLY CORPORATION)
1. WHO USES THE SERVICES?	NON-OWNER CUSTOMERS	GENERALLY NON-OWNER CUSTOMERS	GENERALLY NON-OWNER CUSTOMERS	CHIEFLY THE OWNER-PATRONS
2. WHO OWNS THE BUSINESS?	THE INDIVIDUAL	THE PARTNERS	THE STOCKHOLDERS	THE MEMBER-PATRONS
3. WHO VOTES?	NONE NECESSARY	THE PARTNERS	COMMON STOCKHOLDERS	• THE MEMBER-PATRONS
4. HOW IS VOTING DONE?	NONE NECESSARY	USUALLY BY PARTNERS' SHARE IN CAPITAL	BY SHARES OF COMMON STOCK	USUALLY ONE-MEMBER ONE-VOTE
5. WHO DETERMINES POLICIES?	THE INDIVIDUAL	THE PARTNERS	COMMON STOCKHOLDERS AND DIRECTORS	THE MEMBER-PATRONS AND DIRECTORS
6. WHO PROVIDES OWNERSHIP CAPITAL?	THE INDIVIDUAL	THE PARTNERS	THE STOCKHOLDERS AS INVESTORS	MOSTLY THE MEMBER-PATRONS
7. ARE RETURNS ON OWNER-SHIP CAPITAL LIMITED?	NO	NO	NO	• YES-USUALLY 5% OR LESS (RESEMBLES INTEREST MORE THAN DIVIDENDS)
8. WHO GETS THE OPERATING PROCEEDS?	THE INDIVIDUAL	THE PARTNERS IN PROPORTION TO INTEREST IN BUSINESS	THE STOCKHOLDERS IN PROPORTION TO STOCK HELD	• THE PATRONS ON A PATRONAGE BASIS

• BASIC PRINCIPLES OF FARMER COOPERATION



ages do not apply to volume of business. In volume of business the corporation is by far the most important type of business organization.

This invisible businessman—the corporation—created by the State corrected the defects of the partnership. The charter granted the corporation by the State assures the business will continue. If any one of the owners or stockholders leaves, it does not affect the continued operations of the organization.

This legal businessman, the corporation, owns property the same as any other business individual. This property is wholly separate from the individual holdings of the stockholders who have contributed to the property of the corporation by buying stock. Thus, the corporation in general assumes the business risks. In this way, it meets some of the weaknesses of the earlier types of business in which losses fell on the individual owners.

### **Control of Corporations Based on Stock Ownership**

A stockholder or director has no power individually to make a contract binding on the corporation. But any one person who holds more than 50 percent of the stock can control the corporation through his power to elect directors. The net income is distributed as dividends on the stock usually declared by the board of directors or passed to the reserve or surplus funds to strengthen the business.

### **Cooperative Business System Differs**

We have talked about how these various types of business grew. Now, let us separate them into two groups and point out some of the

differences between the farmer cooperative and its business neighbors.

First, we will separate the three other business types from the cooperative corporation. As a group, all the business firms under individual, partnership, or general corporation management sell their goods and services to the public on a customer basis. There isn't an individual business in the country whose goods or services can be completely used by the family of that businessman, although some of our self-sufficient farms in remote areas could almost do it. This dependence on each other continues through the partnerships and to the largest of the corporations.

Even though there may be hundreds of thousands of stockholders in a corporation, they do not use the services of the business in their owner capacity. As owners they are investors in the business. As users, they are customers the same as the nonowner who uses its services. Therefore, in the case of every firm represented by any of these three, the customer enters into a transaction with the business, pays his bill, and that ends it. The good will of the business retains his patronage and causes him to return. If not satisfied, he goes some place else for his next purchase or sale. So, except in the case of some utilities, the customer voluntarily takes his patronage to these three kinds of business.

Let's turn now to the farmer cooperative. Here in contrast the owners of the business are also the users of its services. These owners formed their cooperative corporation to provide services they would themselves use. The owners are also the patrons of their own

business. Thus they tailor its services to their needs.

This new and different relationship made it necessary to set up certain principles to assure these services. These do not apply to other types of business simply because the relationships do not exist.

The first principle of agricultural cooperation is member-patron control; that is, control by the people using the service. We said that the reason the owners set up the organization was to provide services they wanted themselves and would use themselves. With this objective, what is the best way to obtain these services? Obviously, the customers must control the organization that provides the services. In most cooperatives each member customer has one vote. He helps elect the board of directors. These directors administer the policies of the cooperative and select its manager.

The second principle is to limit returns on capital. Through this principle, members may receive an interest type of payment on the capital they have invested to obtain the services of the business. In

other words when payments are made for capital returns, the cooperative is paying for the use of the capital or the money invested just as it pays for labor, machinery, or other costs of doing business.

The third principle of cooperation is to distribute proceeds on a patronage basis. The cooperative first pays all of its costs. Then if its operations are successful, there is money left from overcharges to the members for goods or services they purchased, or from underpayment for products they marketed. The cooperative divides this money among the patrons. Each patron receives a share in proportion to his use of the organization's services. Limiting returns on capital to an interest-type payment and distributing savings on a patronage basis complete the objective of operating at cost.

These three principles—member-patron control, limited returns on capital, and benefits divided on a patronage basis—make the cooperative the specialized type of corporation it is, compared to the three other kinds of business.



## You and Your Co-op Series

OTHER circulars in this series are available from the Farmer Cooperative Service, U. S. Department of Agriculture, Washington 25, D. C. The series includes:

*The Story of Farmer Cooperatives,  
FCS Educational Circular 1.*

*Using Your Wool Co-op, FCS Educational Circular 2.*

*Guide for Teaching Farmer Cooperation, FCS Educational Circular 3.*

*Using Your Livestock Co-op, FCS Educational Circular 4.*

*Financing Farmer Cooperatives,  
FCS Educational Circular 5.*

*Using Your Farm Supply Co-op,  
FCS Educational Circular 6.*

*Using Your Fruit and Vegetable Co-op, FCS Educational Circular 7.*

*Using Your Co-op Elevator, FCS Educational Circular 8.*

*Using Your Poultry and Egg Co-op,  
FCS Educational Circular 9.*

*Forming Farmer Cooperatives, FCS Educational Circular 10.*

*Sizing Up Your Cooperative, FCS Educational Circular 11.*

*Using Your Fruit and Vegetable Co-op, FCS Educational Circular 7.  
Community, FCS Educational Circular 12.*

*Three Principles of Agricultural Cooperation, FCS Educational Circular 13.*

*Using a Local Cooperative as Source Material for Teaching, FCS Educational Circular 14.*

*Using Your Co-op Gin, Circular E-9.*

A copy of each of these publications may be obtained upon request while a supply is available from the

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FARMER COOPERATIVE SERVICE  
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